



Hudson's Bay Company

INCORPORATED 2ND MAY 1670

ANNUAL REPORT 1983

**The 315th Annual Meeting
of Shareholders**

will be held at the Westin Hotel,
Winnipeg, Manitoba, on May 29, 1984
at 12 noon.

On peut obtenir ce rapport annuel
en français sur demande.

Hudson's Bay Company

Financial Highlights

	This Year 1983	Last Year 1982
in millions of dollars		
Sales and revenue	4,370.5	4,138.7
Loss before extraordinary items	(17.9)	(122.2)
Extraordinary gains (losses)	82.8	(5.4)
Net earnings (loss)	64.9	(127.6)
Cash flow	(6.6)	(104.7)
Capital expenditures	94.7	120.3
Shareholders' equity	1,179.7	1,049.0
in dollars		
Per Ordinary Share:		
Loss before extraordinary items	(1.63)	(5.63)
Net earnings (loss)	1.86	(5.86)
Dividends	.60	.75
Equity	39.40	38.00

Directors' Report to Shareholders

SUMMARY

Your Company achieved a substantial but not a complete recovery in 1983 from the effects of the deep recession of the previous two years. Excluding extraordinary gains, the loss per ordinary share was reduced to \$1.63, compared with \$5.63 in 1982. Including extraordinary gains, principally from the disposal of investments in Dome Resources Limited and Simpsons-Sears Limited, earnings were \$1.86 per ordinary share compared with a loss of \$5.86 in 1982.

The principal factor in the recovery, apart from extraordinary gains, was a significant increase in merchandising profits which resulted from an upturn in consumer spending, combined with careful expense control.

Natural resource profits were down substantially owing to the disposal of the investment in Dome Resources. This reduction, however, was more than offset by a saving in interest costs which arose principally from the decrease in short-term debt following investment disposals.

Actions to restrain capital spending, reduce merchandise inventories, dispose of unproductive assets, and lower operating expenses continued through 1983.

The financial condition of the Company has been strengthened considerably during the year, as indicated by its improved debt-to-assets ratio. Barring a reversal in economic conditions, earnings will continue to improve during 1984.

1983 RESULTS

The Company incurred a loss of \$17.9 million before extraordinary items in 1983, compared with a loss of \$122.2 million the year before. After deducting dividends accrued to preferred shareholders of \$20.8 million in 1983 and \$11.4 million in 1982, there was a loss of \$1.63 per ordinary share in 1983, compared with a loss of \$5.63 per ordinary share the year before.

After extraordinary gains in 1983 of \$82.8 million arising principally from the disposal of investments in Dome Resources and Simpsons-Sears, net earnings amounted to \$64.9 million (\$1.86 per ordinary share). In 1982 the loss including extraordinary items was \$127.6 million (\$5.86 per ordinary share).

Sales and revenue were \$4.4 billion in 1983, an increase of 5.6% over the previous year.

Merchandising operating profits rose to \$59.9 million from \$22.1 million in 1982, despite the fact that the contribution of the Simpsons-Sears investment, the majority of which was sold at mid-year, was \$12.4 million less in 1983 than in 1982. Although there was a substantial improvement in merchandising profits, the result was still less than half the profits achieved prior to the recession and, therefore, far from satisfactory.

The sales performance of the three major retail companies differed widely. Zellers, taking advantage of strong promotional campaigns emphasizing value to price-conscious consumers, achieved an increase of 10.4%. The Bay, with strong gains in Eastern Canada but only marginal increases in the West, where economic recovery is still lagging, had to settle for an average increase of 2.9%. Simpsons' sales were virtually unchanged. Expenses were well controlled in all three companies.

Fur results were adversely affected by low prices early in the year and by some abnormal losses in bad debts. Wholesale profits were about the same as last year, as an improvement in wholesale branch operations was offset by a deterioration in vending results. Cigarette vending sales continued to be severely affected by the high level of federal and provincial taxes.

Real estate profits were \$52.7 million, compared with \$47.0 million a year ago. The principal reason for the improvement was a higher volume of land sales in the United States.

Operating profits from natural resources declined by \$48.0 million, reflecting the discontinuance of income from Dome Resources, effective March 25, 1983.

Interest expenses decreased substantially to \$173.7 million from \$261.3 million in 1982. The principal reasons were the Dome Resources and Simpsons-Sears disposals, the proceeds of which were used to pay off short-term debt. The prime rate during the year ranged from 12.0% to 11.0%, and the average cost of borrowing declined from 13.5% in 1982 to 11.2% in 1983.

FINANCIAL

The Company's financial position strengthened considerably in 1983. Receivables were significantly more current than a year ago. Variable rate debt stood at \$448 million, compared with \$1,241 million a year ago, and now represents 26% of total debt compared with 54% the previous year. The Company raised \$246.0 million in new long-term debt during the year. Bank borrowings were comfortably below our bank lines of credit at the peak borrowing period in November. In addition, the percentage of debt to assets employed was reduced to 57.8% from 66.8% the year before.

CORPORATE DEVELOPMENTS

1. Dome Resources

Shareholders will recall that in 1981 the Company disposed of its investment in Hudson's Bay Oil and Gas to Dome Petroleum in return for 7.7 million preferred shares of Dome Resources, retractable in three years at \$57.50 each. Dome Resources redeemed the entire issue on March 25, 1983 at \$58.81 each, including accrued dividends. The Company used the \$455.0 million proceeds to reduce short-term debt.

This transaction gave rise to an extraordinary gain of \$11.0 million in 1983, which was in addition to the extraordinary gain of \$342.9 million recorded in 1981 on the original sale of the HBOG investment.

2. Simpsons-Sears Limited

As a result of its acquisition of Simpsons Limited in 1979, the Company acquired a 35.6% interest in Simpsons-Sears Limited. The Company stated at that time that it would not take an active part in the management of Simpsons-Sears and would dispose of this investment when appropriate. This was achieved during 1983 in two separate transactions:

- (a) On February 10, 1983 the Company issued 4.5 million preferred shares series F with a stated value of \$25.00 each which are exchangeable for 13.5 million class B shares of Simpsons-Sears.



Donald S. McGiverin, Governor and President
Alexander J. MacIntosh, Deputy Governor

(b) On July 1, 1983 the Company sold 17.6 million class B shares of Simpsons-Sears (a 20.2% interest) to Sears, Roebuck and Co. at \$12.00 per share, for a total price of \$211.2 million. This transaction generated an extraordinary gain of \$48.0 million. If all the preferred shares are exchanged, the Company's interest in Simpsons-Sears will be reduced to nil.

3. Markborough Properties Limited

The Company has consolidated in Markborough Properties Limited, its wholly-owned subsidiary, all its real estate holdings except those buildings occupied by its merchandising operations. This transaction involved the transfer to Markborough of ownership interests in approximately forty shopping centres and commercial buildings which had previously been held by other companies in the HBC group. As a result,

Markborough is one of Canada's largest and most diversified real estate development companies, with a good balance between land development and income properties, and with real estate assets having a book value in excess of \$1.4 billion.

4. Toronto Credits, Limited

The Company, which, through Simpsons, had been a 15% owner of Toronto Credits, Limited, purchased a further 54% interest for \$4.6 million in 1983. Toronto Credits, Limited is the owner and operator of the Toronto Credit Bureau, a business which provides credit information to its customers and a data processing network for other credit bureaux in Ontario.

5. Computer Innovations Corporation

The Company purchased in August 1983 a 36% interest in Computer Innovations Corporation, a retailer of micro-computers, software and accessories, for \$4.0 million. Computer Innovations used the funds invested by the Company to expand its retail operations from ten to 34 units, of which 27 are located in The Bay or Simpsons department stores.

6. Computing Centre

The Company opened a \$25 million computing centre in Toronto in March 1983 to house centralized computing facilities, principally for The Bay and Simpsons. The centre operates around the clock, processing data for financial, inventory control, credit and distribution systems, and has additional capacity to add new systems as they are developed. The opening of the computing centre is a significant step forward for the Company in the vital field of computer systems.

ECONOMIC CONDITIONS

After a drop of 4.4% in 1982, the Canadian GNP grew by 2.8% in 1983. The first stage of the recovery was marked by a surge in housing and by the slowing of inventory liquidation. Then consumer spending accelerated, with emphasis on such durables as cars and appliances.

The strength and duration of the Canadian economic recovery seem to depend on two ingredients. The first is an upswing in business investment to increase capacity in some sectors and to modernize equipment in many others. The second ingredient, and of vital importance to HBC, is a further strengthening of consumer spending. Inflation has eased to the 5% to 6% level; interest rates have stabilized; personal balance sheets have improved, enabling consumers to take on more debt, and there remains a high level of pent-up demand for durable goods. It is to be hoped that these positive indicators will be strong enough to overcome the negative effects of high unemployment and lingering consumer caution about spending and incurring new debt.

The weight of evidence points to GNP growth of 3% to 4% in 1984, but prospects for 1985 are heavily dependent on an upsurge in business investment.

OUTLOOK

There is no question that the retail industry in Canada is operating with excess capacity. The department stores contributed to this problem by their surge, over the past decade, to new suburban centres, all of which were filled with competing specialty stores, and some of which are still too thinly supported by surrounding population. The downturn in consumer spending during the recent recession emphasized the over-capacity problem and price competition has reduced margins. Some retailers have been driven to the wall.

Nevertheless, we believe there are continuing opportunities for profitable growth in retailing by those companies which apply professional marketing and managerial skills, are soundly financed, have better-than-average locations, and take advantage of new technology. Specifically, we believe that our three major retail companies have these ingredients for success. We foresee that most of our earnings growth over the next decade will come, not from getting bigger, but from getting better.

Although 1984 will not be easy, we expect further recovery in our merchandising earnings based on sustained growth in consumer spending and the ability of our retail management to improve the Company's earnings through the many new programs that have been introduced in recent years. We anticipate a substantial improvement in our results from the disappointing level of 1983; other operations can look forward to modest improvements.

BOARD

We regret that we are losing by retirement two of our senior directors: Mr. W.D.C. Mackenzie and The Rt. Hon. Lord Trend. Mr. Mackenzie has been a director since 1972 and Lord Trend, since 1973. We extend to them our grateful appreciation for their service to the Company, and best wishes for the future.

APPRECIATION

It would have been impossible to weather the kind of recession we recently suffered without the dedication and hard work of our employees. Their achievements are greatly appreciated. We also thank our customers, our suppliers and our shareholders for their continuing support and confidence.

On behalf of the Board

D.S. McGIVERIN, Governor and President
A.J. MacINTOSH, Deputy Governor

March 16, 1984

Operating profits from merchandising (before interest and taxes) were \$59.9 million in 1983, substantially up from \$22.1 million the year before.

Information on the Company's five merchandising operating groups, which contributed the majority of merchandising profits, may be found on the following ten pages.

Merchandising results also include earnings from HBC Travel Limited and Marshall Wells Limited, both of which are wholly owned, and equity earnings (based on the Company's share of ownership) of Eaton Bay Financial Services Limited, Toronto Credits, Limited, Hudson's Bay Distillers Limited and Computer Innovations Corporation. In addition, merchandising results in 1983 included both dividends and equity earnings from Simpsons-Sears Limited.

The contribution of the Simpsons-Sears investment, the majority of which was sold during the year, was \$12.4 million less in 1983 than in 1982. Hudson's Bay Company's 35.6% equity interest in the pre-tax loss of Simpsons-Sears to the date of disposal was \$3.2 million. Following sale of a 20.2% interest, equity accounting was discontinued and dividends received on the remaining 15.4% interest for the balance of the year amounted to \$2.9 million. In 1982 Hudson's Bay Company's equity share of Simpsons-Sears' pre-tax earnings was \$12.1 million.

Ownership of Marshall Wells was transferred during the year from Zellers to the parent company, and Marshall Wells assumed responsibility for supplying hardware to The Bay and Simpsons department stores. Marshall Wells is also engaged in the distribution of hardware and

related products, mainly through a chain of retail outlets in Western Canada operated under franchise by owner-operators. Marshall Wells achieved improved results in 1983.

HBC Travel Limited also had an improved year in 1983. Travel markets revived, but remain very price competitive.

Eaton Bay Financial Services' results were substantially better than the year before, reflecting the corrective actions previously taken. Mutual Fund sales were particularly strong, increasing at a greater rate than that for the industry. General insurance sales increased, while life insurance and annuity sales combined were unchanged. Trust company assets remained level while the matching of assets and liabilities was completed. Combined operations for the year were profitable, with each subsidiary showing profit growth over the previous year.

Volume of Hudson's Bay Distillers Limited and of the industry as a whole was down in 1983. A major and disturbing factor in this reduction was excessive and discriminatory taxation of distilled products. Wine results improved but not enough to offset a reduction in profits from distilled products.

Computer Innovations' results were adversely affected by start-up costs of 24 new retail outlets but this operation has good potential for future growth.

Profits of Toronto Credits, Limited were up in 1983 because of generally increased credit activities and high demand for credit reports.

The Bay increased operating profits significantly in 1983 over the disappointing results of the year before, despite continuing sales difficulties in Western Canada.

Sales and revenue, at \$1.7 billion, were 2.9% higher than the year before. Sales patterns were erratic throughout the year, with chronological quarterly increases of 1.6%, 5.5%, 2.9% and 1.8%. The strong second quarter was stimulated by a sales tax holiday on furniture and appliances in Ontario, but some of this gain represented sales brought forward from the third quarter. In the important fourth quarter, sales were very good leading up to Christmas, but were somewhat below expectations for November and January.

The natural resource-based economy of the Western provinces is recovering more slowly than anticipated from the recession, and this hindered sales of The Bay, which does a higher proportion of its business in the West than most national retailers. On the other hand, sales in Eastern Canada and in the North generally exceeded expectations.

Sales of apparel strengthened as the year progressed. Furniture and appliance sales, which had been heavily affected by the recession in 1981 and 1982, were much improved. Traditional Christmas departments were quite successful. By contrast, sales of video games and equipment softened noticeably.

The rate of gross profit rose in 1983 owing to a better mark-down performance. Markups remained under strong competitive pressure throughout the year. Expenses and inventories were well controlled.

Two major expansion projects were completed in 1983. The first was a \$20 million addition to, and total modernization of, the downtown Ottawa store. It was extended by 88,000 square feet and was connected by two bridges to the Rideau Centre, a large, new shopping, hotel and convention centre in the heart of the city. Customer reaction and sales results have been very positive.

The second was the replacement of The Bay store at the Rockland Centre in Montreal, coincident with enlargement and modernization of the entire centre. The Bay store was closed for approximately six months prior to the re-opening in August. Sales results have been most gratifying. The new store's sales in the six months since re-opening exceeded those of the old store for the entire twelve months of 1982.

Construction has begun on a \$30 million program in the Vancouver downtown store. This program includes the modernization of all merchandising floors and provision of direct access to the store through new vertical transportation from the Granville station of Vancouver's new Advanced Light Rapid Transit system. The program will be completed in stages, to coincide with the opening of ALRT in January 1986 and the World Exposition in May of that year.

Further progress was made during the year in developing and implementing computer systems. The most comprehensive and important of these systems is BASICS, a merchandising system that covers all types of merchandise, from fashion to hard goods. It assists in developing and maintaining assortments, monitors sales and investment, replenishes automatically and provides reports to management on request. BASICS is now operational in two of six department store regions of The Bay, and will be installed in the other regions by 1985. It will provide increased capability to manage complex merchandise inventories for higher sales and better return on investment.

The Bay is realizing increasing benefits from the Company's corporate distribution activities. A partial rationalization of distribution facilities with expanded systems support was implemented during the year. Productivity improvements were achieved in both transportation and distribution.

The Bay expects improved results in 1984, provided Canada's economy continues to recover.





Sales in 1983 decreased 0.8% to \$726 million from \$732 million in 1982.

An increase in the gross profit rate and a good expense record did not offset the weak sales performance. As a result, Simpsons had an operating loss, although at a level improved from the previous year.

Sales of the Home Division, except for furniture, appliances and floor coverings, were particularly weak. Sales increased in men's and women's fashion apparel. The introduction, in the second half of the year, of S.V.P., a new value merchandising concept, was successful and has potential for sales gains in 1984.

Simpsons completed the conversion of its distribution centres in Toronto and Montreal from storage to a flow-through mode. Further enhancements, to be implemented in the first half of this year, will provide more timely shipments to all 23 stores. As a result, lower inventories and improved turnover are planned for 1984.

Simpsons successfully implemented a new on-line descriptive billing credit system in all stores during 1983. The state-of-the-art system has been well accepted by Simpsons' customers, as it provides them with easy to read, timely statements.

The new 150,000 square foot flagship store in Halifax, featuring the latest concepts in merchandise presentation, opened as scheduled in August, replacing the old facility.

Renovations of the downtown Montreal second floor for men's apparel, and the lower level as a leisure and gourmet food floor, were finished in October. This completes the planned renovations of the first four floors and should improve Simpsons' market position in downtown Montreal this year.

During the first quarter of 1983, Simpsons merged its Toronto and Ontario Regions, and now operates as two regions: Ontario Region, and the Quebec and Maritime Region. As a result, operating effectiveness has improved. In addition, several new financial and merchandising systems were implemented throughout all Simpsons stores in 1983. Some initial problems were encountered but, by the last quarter, these systems were operating effectively. Based on improving productivity of the new distribution, financial and merchandise systems, together with a company-wide dedication to a recently developed long-range marketing strategy, Simpsons is planning a considerable improvement in results in 1984.



Consolidated sales increased by 10.4% to \$1.2 billion. After deleting the prior year's sales of Diamond & Co., whose operations were terminated in 1982, and Marshall Wells, whose operations were transferred to Hudson's Bay Company, the sales increase for continuing operations was 13.7%. Operating profit showed a strong recovery from 1982's depressed levels. Higher than planned inventory levels and related markdowns, however, produced earnings that were somewhat disappointing in relation to the sales increase.

Zellers' sales rose 15.3% to \$1.1 billion, and the company gained market share in all provinces. A satisfactory increase in the productivity of existing stores was augmented by the sales of six new, four enlarged and twelve renovated stores. Each year, Zellers enlarges or renovates a number of stores which meet certain performance criteria. With few exceptions, the new or remodelled

stores in 1983 exceeded their sales plans. The location and sizes of the new stores are:

	Square feet
Edmonton, Alberta	71,000
Regina, Saskatchewan	53,000
Bathurst, New Brunswick	48,000
Greenfield Park, Quebec	48,000
Douglastown, New Brunswick	35,000
Ottawa, Ontario	15,000

Four older, unprofitable stores were closed during the year.

Start-up problems in 1982 in the upgraded Montreal Distribution Centre were resolved, and the company opened a new 200,000 square foot distribution facility in Toronto. These changes, together with the integration of certain distribution functions with those of other Hudson's Bay divisions, reduced distribution costs substantially.

Considering the continuing soft economy in British Columbia and Alberta, Fields Stores had a very satisfactory year. On a comparable store basis, Fields' sales increased by 10.5%. Fields opened two stores and closed one during the year. Operating profit showed a significant improvement, owing principally to better markdown performance.

In August, Zellers launched its new infants' and children's wear concept "Just Kids", opening five stores in Southern Ontario. These stores, of approximately 3,500 square feet, specialize in infants' and children's wear, and accessories for up to six-year-olds. As a result of our analysis of results and because of public response, future stores will cater to up to 12-year-old girls and boys and will be increased to 6,000 square feet.

The store expansion and modernization program will continue in 1984 with seven new and 21 enlarged or modernized stores for Zellers, eight new stores for Fields and ten for Just Kids.

The improvement in retail sales, which began in the Spring of 1983, is projected to continue in 1984 and with the additional sales from stores opened in 1983 and 1984, further significant gains in sales and earnings are projected for Zellers, Fields and Just Kids.

JUST KIDS



Sales of Hudson's Bay Wholesale for 1983 were \$522.9 million after deleting inter-Company sales, an increase of 7.8% over the previous year. Operating profits (before interest and taxes) were \$10.1 million, a marginal improvement over 1982's \$10.0 million.

Wholesale sales improved in every region, with the largest gains in British Columbia, Saskatchewan, Manitoba and Ontario.

Cigarette sales, a large component of total sales volume, continued to decline. Tobacco margins shrank because of price cutting at the wholesale and retail levels.

Confectionery sales rose sharply and many new product lines were introduced. The Company also expanded into institutional food servicing and marketed several new lines of specialty foods.

Health and beauty aid assortments expanded during the year to include sufficient stock-keeping units to supply larger accounts. This will ensure competitive pricing through volume purchasing in commodities predicted to have high growth potential over the next few years.

Management information systems were expanded to provide necessary financial information to customers and management. This includes systems for fully computerized billing, product information, gross profit sales analysis control, and inventory management.

Hudson's Bay Wholesale also expanded into the field of direct importing in merchandise categories including giftware items, small sundries, stationery, candy and confectionery. This import program is designed to provide customers with merchandise that will yield a higher rate of gross profit.

Vending operations were affected by reduced cigarette sales, declining use of video games and rising operating costs.

Last year the Company announced the introduction of Customer Controlled Vending, a sales and leasing program which permits the Company to maintain a profitable vending presence in locations which do not justify full service. This program grew during the year, and will continue to expand in 1984.

Continued strong sales performance in Red Carpet office coffee service was most encouraging.

Hudson's Bay Wholesale anticipates another improved year in sales and earnings in 1984.



red carpet
coffee
services



Fur profits were substantially lower in 1983 than in the previous year. Total consignment sales, at \$355.8 million, were down marginally from the previous year's \$360.1 million, but results deteriorated from a profit of \$4.3 million to a loss of \$4.0 million.

This sharp reversal was caused by a steep decline in wild fur prices in the early months of the year and by some abnormal losses in bad debts. Commission earnings were substantially the same as in 1982 and expenses in general were slightly lower.

Consignments sales made by the Company in London, New York and Toronto, are of two kinds: ranched furs and wild furs.

The volume of ranched furs was maintained at 1982 levels;

indeed, in New York the volume of ranched mink increased. Prices in New York and Toronto, however, showed little or no increase over 1982 owing to the continued strength of the dollar against the currencies of other fur consuming areas, notably Europe and the Far East. In London, however, in the final sales of the year, sterling prices did show considerable increases over the previous year.

In wild furs, prices fell sharply in the early months of the year, causing substantial losses. In addition, the volume of wild fur handled declined in the latter part of the year, reflecting overall market decline as the price fell, rather than a loss of market share. It would appear that the prices for wild fur have now stabilized.

The Company has continued to consolidate its position in existing markets for fur, particularly in North America and Europe, and is drawing increasing support from such developing markets as Korea, Hong Kong and Japan.

In the final month of the year, prices for all types of ranched fur began to improve, reflecting increased economic activity overall and particularly in furs at retail world wide.

Popularity of furs as a fashion item continued to increase in 1983



Markborough

PROPERTIES LIMITED

As mentioned earlier in the report, the Hudson's Bay Company group's real estate holdings, except buildings occupied by merchandising operations, were consolidated in Markborough Properties on February 1, 1984. The transaction more than doubled the size of Markborough, placing it among the leading real estate development firms in Canada. Markborough now owns or has an interest in 14 million square feet of shopping centre space, 1.6 million square feet of commercial space, and more than one million square feet of industrial buildings.

The comments which follow apply to the consolidated real estate activities.

Operating profits (before interest and taxes) rose by 12.1%

from \$47.0 million in 1982 to \$52.7 million in 1983, principally because of increased land sales in the United States.

Revenue from land operations increased by 62.7% as the housing sector of the North American economy recovered from the depressed conditions of 1982. Markborough achieved substantially improved results in Arizona, Texas, and Boca Raton, Florida. Its Texas land operations continued to be a major contributor of revenue and profits. These gains more than offset losses incurred on land development properties in Ontario and Alberta.

Housing operations concentrated in the Phoenix area, although modest in size, enjoyed a record year.

Results from income properties also improved. Three properties, including an apartment building in Toronto and the St. Paul Tower office building in Dallas, were sold for a combined pre-tax gain of \$6 million. Construction has begun on Heritage Place, a 14-storey downtown office project in Ottawa. Planning consents have been obtained for the redevelopment of the Beaver House site into a 240,000 square foot office building in the central commercial area of London, England.

Subject to continuing stable economic conditions, Markborough anticipates further gains in profits in 1984.

Hudson's Bay Centre in Denver, Colorado, Markborough's twenty-storey, 230,000 sq. ft. office building, opened in 1983.



Despite declining oil prices and natural gas sales, Roxy achieved encouraging operating results and strengthened its financial position in 1983. Roxy's Canadian operations generated revenues of \$18.9 million, an increase of 24% over the \$15.2 million in 1982. After tax cash flow from Canadian operations was \$11.3 million, an increase of 39% from \$8.2 million for the previous year. Earnings increased 26% from \$878,000 in 1982 to \$1.1 million. After extraordinary and non-recurring losses from foreign operations, net loss for the year amounted to \$3.1 million, compared to the restated \$7.7 million loss for 1982.

On December 29, 1983, Roxy sold all the shares of its unprofitable wholly-owned U.S. subsidiary, Roxy Resources Inc. for \$8.6 million. Elimination of this operation, together with the cash from its sale, will have a positive effect on Roxy's growth.

Production of crude oil and natural gas liquids averaged 1,392 barrels per day, up from 1,073 barrels per day last year. The 30%

increase was due to new production in Saskatchewan and Manitoba. Natural gas sales decreased by 10% to 10.4 million cubic feet per day, reflecting depressed market conditions.

Exploration was concentrated on extensive land holdings in Southeast Saskatchewan and Northern Alberta. Roxy participated in an important discovery at Sawn Lake in Northern Alberta and plans an extensive exploration and development program, including twenty wells, in 1984.

Roxy continued to develop successful oil discoveries in the Bienfait field of Saskatchewan and Whitewater field in Manitoba.

In addition, exploration work continued off the East Coast of Canada. The North Dana I-43 well tested natural gas and condensate but, owing to mechanical problems, had to be abandoned before testing could be completed. Further exploration is required to evaluate fully Roxy's acreage in this area, where there is potential for large discoveries.

The Canadian petroleum industry will continue in 1984 to invest cautiously in selected areas. Roxy's strategy over the next few years will include:

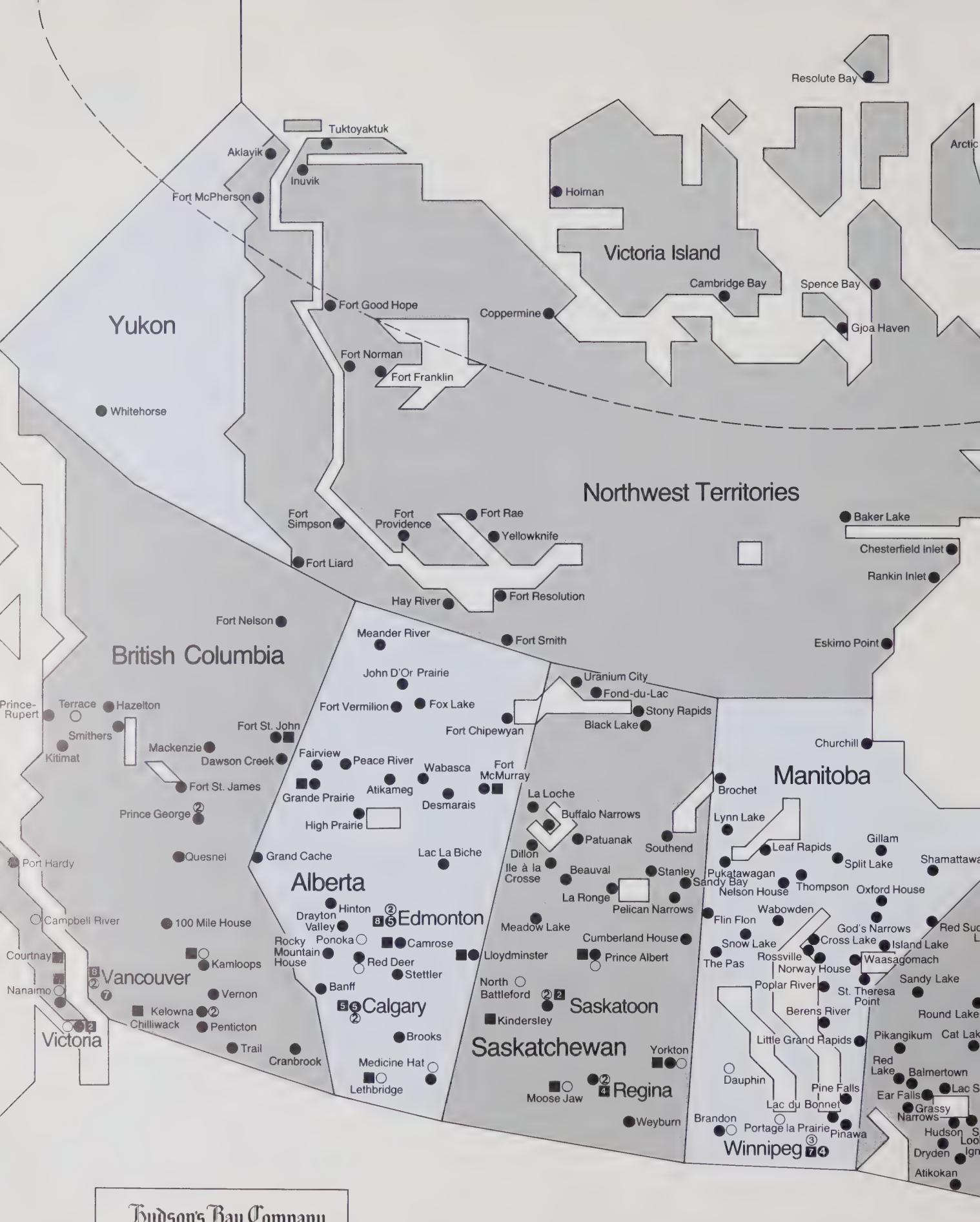
- continued emphasis on exploration for and development of potential crude oil prospects including heavy oil;
- increased expenditure on natural gas exploration in response to anticipated increases in natural gas sales in the latter part of this decade;
- increased emphasis on enhanced recovery; and
- continued efforts in the near future to acquire producing assets.

OTHER NATURAL RESOURCE PROFITS

Natural resource profits (before interest and taxes) of Hudson's Bay Company in 1983 included dividends from Dome Resources of \$6.3 million and amortization profits of \$1.9 million relating to that investment for the period to March 25, 1983, the date of disposal of the Dome Resources investment.

Roxy's oil production increased by 30% in 1983.





Hudson's Bay Company

Retail and Wholesale Locations
January 31, 1984

- The Bay (279)
- ◆ Simpsons (23)
- Zellers (181)
- Wholesale Branches (58)

Excludes Fields stores in
Western Canada (85).



Directors and Officers

HUDSON'S BAY COMPANY

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British Columbia Forest Products Limited

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Hudson's Bay Company

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Governor and President

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Deputy Governor

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Executive Vice-President

William H. Evans
Vice-President, Inter-Corporate Services

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Vice-President and Controller

A. Ralph Huband
Vice-President and Secretary

Douglas W. Mahaffy
Vice-President, Investments

John G.W. McIntyre
Vice-President, Retail Development and Distribution

Peter F.S. Nobbs
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FUR

Officers and Senior Management

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President, Hudson's Bay Company
Fur Sales International Limited
and Managing Director
Hudson's Bay and Annings Limited

Gerald R. Thompson
President, Hudson's Bay Company
Fur Sales Incorporated, New York

Leonard L. Werner
General Manager, Hudson's Bay Company
Fur Sales, Canada

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General Manager, Distribution

Robert N.D. Hogan
General Manager, Credit

Peter W. Schmidt
Corporate General Manager, Food Services

Sol D. Nayman
General Manager, Corporate Marketing

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President
Marshall Wells Limited

John B. Styles
President
HBC Travel Limited

William F. Thompson
Executive Vice-President
Hudson's Bay Distillers Limited

THE BAY

Board

Ian A. Barclay
Chairman of the Board
British Columbia Forest Products Limited

Marcel Bélanger
President, Gagnon et Bélanger Inc.

C. W. (Wally) Evans
President, The Bay

Al A. Guglielmin
Vice-President, Merchandising, The Bay

J. Lorne Klapp
Vice-President, Wholesale Department, The Bay

Donald S. McGiverin
Governor and President, Hudson's Bay Company

Dawn R. McKeag
President, Walford Investments Ltd.

Marvin E. Tiller
Vice-President, National Stores Department
The Bay

John A. Tory
President, The Thomson Corporation Limited

Donald O. Wood
Vice-President, Finance, Hudson's Bay Company

Officers and Senior Management

C. W. (Wally) Evans
President

Al A. Guglielmin
Vice-President, Merchandising

Marvin E. Tiller
Vice-President, National Stores Department

J. Lorne Klapp
Vice-President, Wholesale Department

John A. English
Vice-President, Personnel

Douglas R. Kubicek
Controller, The Bay

Arthur A. Adamic
General Manager, Western Region

Hal L. Spelliscy
General Manager, Alberta Region

Allan W. Brent
General Manager, Central Region

Pierre Mignault
General Manager, Quebec Region

Gary W. McLeod
General Manager, Toronto Region

C.W. (Chuck) Gerhart
General Manager, Ottawa Region

John L. Prenevost
General Manager, National Stores

Clarence A. Mann
General Manager, Northern Stores

J. Blair Bustard
General Manager, Merchandising
Wholesale Department

Shirley A. Dawe
General Manager, Merchandising, Fashions

E. B. (Ted) Johnston
General Manager, Merchandising, Home Division

Stuart W. Fraser
Director, Planning & Systems

Paul H. Harrison
Director of Merchandise Investment

D. Keith McConnell
Director of Operations Services

Roger Smith
Director of Food Services

MARKBOROUGH PROPERTIES

Board

Peter A. Anker
President, Markborough Properties Limited
Tullio Cedraschi
President, CN Investment Division
Canadian National Railways
Gordon C. Gray
Chairman, A.E. LePage Limited
Stuart S. Jardine
Chairman of the Board
George Wimpey Canada Limited
H. Peter Langer
Chairman of the Board
Markborough Properties Limited
Alexander J. MacIntosh
Partner, Blake, Cassels & Graydon
Donald S. McGiverin
Governor and President
Hudson's Bay Company
John G.W. McIntyre
Vice-President, Retail Development and
Distribution, Hudson's Bay Company
Donald F Prowse
Executive Vice-President
Markborough Properties Limited
William W. Siebens
President, Candor Investments Ltd
Peter W. Wood
Executive Vice-President
Hudson's Bay Company

Officers

H. Peter Langer
Chairman of the Board
Donald S. McGiverin
Deputy Chairman of the Board
Peter A. Anker
President
Donald F Prowse
Executive Vice-President
Jack A. Hasen
Regional Vice-President, Eastern Region
Kenneth E. Nixon
Regional Vice-President, Western Region
John B. Alguire
Senior Vice-President, Construction
L.M. (Dennis) Harris
Senior Vice-President, Shopping Centres
George H. Mundy
Senior Vice-President, Finance
James C. Shapland
Senior Vice-President and Secretary
John A. Brough
Vice-President and Treasurer
Walter R. Ciastko
Vice-President, Shopping Centres
Douglas W. Kelly
Vice-President, Western Canadian Region
F. Peter Langer
Vice-President, Property Management
William B. Bryck
Controller
Patricia I. Thomas
Assistant Secretary

ZELLERS

Board

James G. Balfour
Chairman of the Board, Zellers Inc.
R. Ross Craig
Executive Vice-President, Commercial
Dofasco Inc.
Graham R. Dawson
President, G. R. Dawson Holdings
Thomas S. Dobson
Chairman, Easton United Securities Limited
Josette D. Leman
Travel Consultant, Bel-Air Travel Inc.
Keith H. MacDonald
Company Director
Alexander J. MacIntosh
Partner, Blake, Cassels & Graydon
Donald S. McGiverin
Governor and President, Hudson's Bay Company
J. Robert Ouimet
President, J. René Ouimet Enterprises Ltd
T. Iain Ronald
President, Zellers Inc.
Peter W. Wood
Executive Vice-President, Hudson's Bay Company

Officers

James G. Balfour
Chairman of the Board
T. Iain Ronald
President
William H. Buggs
Vice-President, Real Estate
Store Expansion & Food Service
Hans E. Busse
Vice-President, Store Management
Marc-André Filion
Vice-President, Secretary & General Counsel
Bruce H. Gilbert
Vice-President, Human Resources
Eric S. Paul
Vice-President, Merchandise
Thomas Saar
Vice-President, Management Information Services
N.A. (Art) Smith
Vice-President, Finance

ROXY PETROLEUM

Board

Thomas S. Dobson
Chairman, Easton United Securities Limited
Joseph R. Dundas
President, Roxy Petroleum Ltd.
W. Donald C. Mackenzie
President, W.D.C. Mackenzie Consultants Ltd.
Douglas W. Mahaffy
Vice-President, Investments, Hudson's Bay Company
Donald S. McGiverin
Governor and President, Hudson's Bay Company
James S. Palmer
Partner, Burnet, Duckworth & Palmer

Officers

Peter W. Wood
Chairman of the Board
Joseph R. Dundas
President
George A. Pinsky
Executive Vice-President, Exploration
Verne G. Johnson
Vice-President, Operations

SIMPSONS

Board

Thomas J. Bell
Chairman of the Executive Committee
Abitibi-Price Inc
Pierre Laurin
Vice-President and Director
Corporate Planning and Administration
Aluminum Company of Canada, Ltd
Alexander J. MacIntosh
Partner, Blake, Cassels & Graydon
Charles A.M. MacRae
President, Simpsons Limited
Donald S. McGiverin
Governor and President, Hudson's Bay Company
J. Michael G. Scott
Vice-Chairman, Wood Gundy Limited
Ruth M. Goldblum
Company Director
Kenneth R. Thomson
Chairman of the Board and President
Thomson Newspapers Limited
Peter W. Wood
Executive Vice-President, Hudson's Bay Company

Officers and Senior Management

Donald S. McGiverin
Chairman of the Board
Charles A.M. MacRae
President
Ernest C. Bengert
Vice-President, Personnel and Distribution
G. Archie L. Keown
Vice-President and Controller
George J. Kosich
Vice-President, Store Operations
Stanley J. Shortt
Vice-President, Merchandising
Pierre Daoust
General Manager, Quebec and Maritime Region
Raymond G. Western
General Manager, Ontario Region
Christopher J. Desjardins
Secretary

Robert G. Peters
President, Peters & Co. Limited

George A. Pinsky
Executive Vice-President, Exploration
Roxy Petroleum Ltd.

T. Iain Ronald
President, Zellers Inc

William W. Siebens
President, Candor Investments Ltd

Peter W. Wood
Executive Vice-President, Hudson's Bay Company

G. Barry Padley
Vice-President, Finance and Secretary
Christopher A. Bradley
Controller
Glenn R. Carley
General Counsel and Assistant Secretary

Corporate Information

CORPORATE DATA

Registered Office
Hudson's Bay House, 77 Main Street
Winnipeg, Manitoba R3C 2R1

Corporate Office
2 Bloor Street East
Toronto, Ontario M4W 3H7

Principal Bankers
The Royal Bank of Canada
The Toronto-Dominion Bank
Canadian Imperial Bank of Commerce
Bank of Montreal

Registrars and Transfer Agents
The Royal Trust Company, Calgary, Montreal,
Toronto, Vancouver and Winnipeg
Williams & Glyn's Registrars Limited, London

Stock Exchange Listings
Ordinary shares – London, Montreal, Toronto
and Winnipeg
Preferred shares series A – Montreal, Toronto
and Winnipeg
Preferred shares series F – Montreal and Toronto

Auditors
Peat, Marwick, Mitchell & Co.

PRINCIPAL INVESTMENTS

Eaton Bay Financial Services Limited
Markets financial services
597,353 common shares (39%)
406,999 preferred shares

Simpsons-Sears Limited
Operates department stores and catalogue offices
13,440,798 common shares (15.4%) held in escrow
for exchange of HBC preferred shares series F

RETAIL SPACE

at January 31, 1984

The Bay	14,250,000 sq. ft.
Zellers (including Fields)	12,057,000 sq. ft.
Simpsons	4,734,000 sq. ft.

PRINCIPAL SUBSIDIARY COMPANIES

(wholly-owned unless otherwise indicated)

Hudson's Bay and Annings Limited
Hudson's Bay Company Fur Sales Canada Limited
Hudson's Bay Company Fur Sales Incorporated
Fur brokers

Hudson's Bay Company Acceptance Limited
Purchases accounts receivable

Hudson's Bay Company Real Estate Limited
Hudson's Bay Company Properties Limited
Property owning companies

HBC Travel Limited
Operates travel offices

Markborough Properties Limited
Property development company

Marshall Wells Limited
Distributes hardware

Roxy Petroleum Ltd. (52.6%)
Petroleum company

Simpsons Limited
Operates department stores
Simpsons Acceptance Company Limited
Purchases accounts receivable

Zellers Inc.
Operates department stores
Fields Stores Limited
Operates family clothing stores

REAL ESTATE HOLDINGS

at February 1, 1984

	Net Interest
Markborough Properties Limited	7,294,000 sq. ft.
47 shopping centres	1,762,000 sq. ft.
17 office/commercial buildings	762,000 sq. ft.
23 industrial buildings	192 rooms
1 hotel	340 suites
2 apartment buildings	
and land for future development	

PETROLEUM RESERVES

at December 31, 1983
(working interest before royalty)

	HBC Net Interest
Roxy Petroleum Ltd.	2,132,000 bbls
Crude oil	309,000 bbls
Natural gas liquids	99,000 mmcft
Natural gas	

Hudson's Bay Company

Consolidated Statement of Earnings

Year Ended January 31, 1984

	This Year	Last Year
	in thousands of dollars	
Sales and revenue (Note 2)		
Merchandising:		
Retail	3,618,145	3,427,378
Wholesale	522,857	485,153
Fur	39,763	38,311
	4,180,765	3,950,842
Real estate	176,946	126,945
Natural resources	12,817	60,884
	4,370,528	4,138,671
Source of earnings (Note 2)		
Merchandising:		
Retail	53,861	7,696
Wholesale	10,102	10,016
Fur	(4,019)	4,342
	59,944	22,054
Real estate	52,681	47,012
Natural resources	12,535	60,584
Operating profit	125,160	129,650
Interest on long-term debt	(140,890)	(142,203)
Net short-term interest	(32,806)	(119,104)
Loss before income taxes, minority interest and extraordinary items	(48,536)	(131,657)
Income taxes (Note 3)	30,142	8,677
Loss before minority interest and extraordinary items	(18,394)	(122,980)
Minority interest	488	800
Loss before extraordinary items	(17,906)	(122,180)
Extraordinary items (Note 4)	82,806	(5,420)
Net earnings (loss)	64,900	(127,600)
Earnings (loss) per ordinary share		
Loss before extraordinary items	(\$1.63)	(\$5.63)
Net earnings (loss)	\$1.86	(\$5.86)

Consolidated Statement of Retained Earnings

Year Ended January 31, 1984

	This Year	Last Year
	in thousands of dollars	
Retained earnings at beginning of year	640,352	797,756
Net earnings (loss)	64,900	(127,600)
Dividends paid		
Preferred shares	(19,918)	(11,437)
Ordinary shares	(14,234)	(17,815)
Cancellation of ordinary shares (Note 9)	(2,174)	(552)
Retained earnings at end of year	668,926	640,352

Hudson's Bay Company
Consolidated Balance Sheet

January 31, 1984

	This Year	Last Year
in thousands of dollars		
Current assets		
Cash	12,648	13,239
Short-term securities	149,774	11,484
Investment in Dome Resources Limited (Note 6(c)(ii))	—	420,132
Accounts receivable	759,259	760,232
Income taxes recoverable	14,460	18,089
Merchandise inventories	767,010	703,089
Prepaid expenses	19,878	25,281
	1,723,029	1,951,546
Secured receivables (Note 5)	57,622	57,767
Property for sale and future development	309,107	303,413
Investments (Note 6)	476,275	585,115
Fixed assets		
Land	127,793	133,646
Buildings	580,570	567,350
Equipment and leasehold improvements	598,751	537,910
	1,307,114	1,238,906
Less accumulated depreciation	379,049	322,016
	928,065	916,890
Deferred charges	69,014	28,497
Goodwill	108,186	109,565
Deferred income taxes	1,300	—
	3,672,598	3,952,793

	This Year	Last Year
	in thousands of dollars	
Current liabilities		
Bank indebtedness	320,642	739,617
Notes payable	146,236	238,021
Accounts payable and accrued expenses	466,456	400,411
Long-term debt due within one year	48,898	76,485
	982,232	1,454,534
Long-term debt (Note 7)	1,412,889	1,325,093
Pensions (Note 8)	22,765	25,276
Deferred income taxes	—	30,559
Minority interest in subsidiaries	75,046	68,296
Shareholders' equity		
Capital stock (Note 9):		
\$1.80 cumulative redeemable preferred shares series A	114,217	119,530
Variable rate, cumulative redeemable preferred shares series C	20,000	20,000
\$1.512 convertible redeemable preferred shares series D	1,183	1,920
\$2.25 cumulative redeemable exchangeable preferred shares series F	107,982	—
Ordinary shares	258,424	259,439
	501,806	400,889
Additional paid-in capital (Note 10)	8,934	7,794
Retained earnings	668,926	640,352
	1,179,666	1,049,035
	3,672,598	3,952,793

Hudson's Bay Company
Consolidated Statement of Assets Employed

January 31, 1984

	This Year	Last Year
	in thousands of dollars	
Merchandising		
Accounts receivable	716,631	702,852
Inventories	767,010	703,089
Accounts payable	(438,840)	(379,397)
Other current assets	42,323	48,322
Working capital (see below)	1,087,124	1,074,866
Investments	143,939	278,742
Fixed assets	691,398	669,743
Goodwill	77,249	78,389
Other assets	80,042	42,843
Pensions	(22,765)	(25,276)
	2,056,987	2,119,307
Real estate		
Working capital (see below)	19,417	41,132
Secured receivables	41,424	37,849
Property for sale and future development	309,107	303,413
Investments and fixed assets:		
Shopping centres	177,491	167,799
Commercial	85,455	93,084
Residential	74,939	62,540
Goodwill	30,937	31,176
Other assets	5,170	5,572
	743,940	742,565
Natural resources		
Dome Resources Limited	—	420,132
Other current assets	258	3,521
Working capital (see below)	258	423,653
Investments and fixed assets	169,460	168,439
	169,718	592,092
Assets employed	2,970,645	3,453,964
Provided from		
Long-term debt	1,412,889	1,325,093
Net short-term debt (see below)	304,344	980,981
	1,717,233	2,306,074
Deferred income taxes	(1,300)	30,559
Minority interest in subsidiaries	75,046	68,296
Shareholders' equity:		
Preferred shares	243,382	141,450
Ordinary shares	258,424	259,439
Additional paid-in capital	8,934	7,794
Retained earnings	668,926	640,352
	1,179,666	1,049,035
	2,970,645	3,453,964

The following items are included in net short-term debt instead of in working capital: bank indebtedness, short-term notes payable, long-term debt due within one year and short-term securities.

Hudson's Bay Company
Consolidated Statement of Changes in Financial Position

Year Ended January 31, 1984

	This Year	Last Year
in thousands of dollars		
Source of funds		
Loss before minority interest and extraordinary items	(18,394)	(122,980)
Items not affecting net short-term debt:		
Depreciation and amortization	74,900	55,027
Equity in undistributed earnings of affiliates and joint ventures	(25,660)	(15,950)
Deferred income taxes	(37,416)	(20,767)
Used in operations	(6,570)	(104,670)
Disposition of investments	666,690	18,740
Issue of long-term debt	246,017	169,540
Disposition of fixed assets	21,612	25,492
Issue of preferred shares	108,475	–
Issue of ordinary shares	928	2,865
Issue of shares by subsidiaries	1,041	3,403
Decrease in income taxes recoverable	3,629	–
Decrease in prepaid expenses	5,403	–
Increase in accounts payable and accrued expenses	66,045	–
Decrease in merchandise inventories	–	42,964
Other – net	9,832	25,869
	1,123,102	184,203
Use of funds		
Reduction of long-term debt	158,221	102,474
Capital expenditures:		
Merchandising	90,575	115,978
Real estate	3,990	4,126
Natural resources	101	231
Property for sale and future development	3,519	41,616
Investments:		
Natural resource joint ventures	21,980	10,485
Other	9,331	18,157
Deferred charges	51,001	8,928
Purchase of shares for cancellation:		
Preferred shares	5,361	3,036
Ordinary shares	4,140	1,226
Dividends paid:		
Preferred shareholders	19,918	11,437
Ordinary shareholders	14,234	17,815
Minority shareholders	173	–
Increase in merchandise inventories	63,921	–
Closure of Shop-Rite operations	–	5,420
Acquisition of shares of subsidiaries	–	2,770
Increase in accounts receivable	–	7,264
	446,465	350,963
Increase (decrease) in net short-term debt	(676,637)	166,760
Net short-term debt at beginning of year	980,981	814,221
Net short-term debt at end of year	304,344	980,981

Net short-term debt comprises bank indebtedness, short-term notes payable and long-term debt due within one year, less short-term securities and the investment in Dome Petroleum Limited described in note 6(c)(i).

Hudson's Bay Company

Notes to the Consolidated Financial Statements

Year Ended January 31, 1984

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and conform in all material respects with the historical cost accounting standards of the International Accounting Standards Committee. The significant policies are summarized below:

a) Consolidation

These consolidated financial statements include the accounts of Hudson's Bay Company and of all its subsidiary companies.

b) Foreign currency translation

Assets and liabilities denominated in foreign currencies and the assets and liabilities of subsidiaries operating in the United Kingdom and in the United States are translated into Canadian dollars at approximately the exchange rates prevailing at the balance sheet dates with the exception of hedged long-term debt repayable in U.S. dollars, which is translated at the rate at which it was hedged.

Earnings denominated in foreign currencies and the earnings of subsidiaries operating in the United Kingdom and in the United States are translated into Canadian dollars at approximately the exchange rates prevailing at the time they are earned.

c) Leases

All leases, including those relating to store premises, have been classified as operating leases under which rentals are included in determining earnings of the period in which they accrue.

d) Store pre-opening expenses

Costs associated with the opening of new stores are charged against earnings in the year in which the stores open for business.

e) Earnings (loss) per ordinary share

Earnings (loss) per ordinary share reflect the accrual of preferred dividends and are based on the weighted average number of ordinary shares outstanding during the year.

f) Accounts receivable

In accordance with recognized retail industry practice, accounts receivable classified as current assets include customer instalment accounts of which a portion will not become due within one year.

g) Merchandise inventories

Merchandise inventories are valued at the lower of cost and net realizable value less normal profit margins. The cost of retail inventories is determined principally on an average basis by the use of the retail inventory method and the cost of other inventories is determined on a first-in, first-out basis.

h) Capitalization of interest and taxes

Interest and real estate taxes are capitalized to the extent that they relate to properties which either are held for sale or development or are under construction. The amount so capitalized during the year includes interest of \$22,870,000 (last year \$28,729,000).

i) Property for sale and future development

Property for sale and future development is carried at the lower of cost and net realizable value.

j) Investments

The Company follows the equity method in accounting for its investments in joint ventures and in companies in which the Company's ownership interest exceeds 20% and the Company is able to elect a significant proportion of the board of directors of the investee company. Under the equity method, investments are recorded at cost plus the Company's equity in undistributed earnings since acquisition.

Roxy Petroleum Ltd., a subsidiary of the Company, applies the full cost method of accounting for its investments in oil and gas property joint ventures whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Separate cost centres have been established for continental Canada and offshore East Coast Canada. Costs incurred in these cost centres are depleted separately on the unit-of-production method based on estimated proven oil and gas reserves.

Investments in other companies are carried at cost, with dividends being reflected in earnings when received with respect to common shares and non-cumulative preferred shares and as accrued in the case of cumulative preferred shares.

k) Fixed assets

Fixed assets are carried at cost.

Buildings (other than income properties), equipment and leasehold improvements are depreciated on the straight-line method at rates which will fully depreciate the assets over their estimated useful lives. The depreciation rates applicable to the various classes of assets are as follows:

Buildings	2 - 5%
Equipment	7 - 20%
Leasehold improvements	3 - 10%

Buildings held for the purpose of producing rental income (income properties) are depreciated on a 3% 40-year sinking fund method. Under this method the depreciation charged against earnings is an amount which increases annually and comprises a predetermined fixed sum and 3% compound interest, which together will fully depreciate each building over its estimated useful life.

l) Deferred charges

Deferred charges include debt discount and expense and unamortized exchange gains and losses on bonds denominated in foreign currencies which are amortized on the straight-line method over the terms of the issues to which they relate. The amortization is included with interest on long-term debt in the Consolidated Statement of Earnings.

m) Goodwill

Goodwill comprises the unamortized balance of the excess of the cost to the Company over the fair value of its interest in the identifiable net assets of subsidiaries, principally Markborough Properties Limited and Zellers Inc., at their respective dates of acquisition.

The goodwill which relates to acquisitions subsequent to 1973, \$85,969,000 (last year \$87,348,000) after deducting accumulated amortization of \$9,106,000 (last year \$6,745,000), is being amortized on the straight-line method over 40 year periods.

n) Pension costs

Current pension costs, substantially all of which arise under trustee pension plans, are charged to operations. The costs of plan improvements are charged to operations over appropriate periods as they are funded.

o) Comparative figures

Certain of last year's comparative figures have been reclassified to conform with this year's presentation.

2. SUPPLEMENTARY SEGMENTED INFORMATION

The Company is engaged in merchandising through retail stores, including investments in other companies, through wholesale distribution of tobacco and other products and through fur auction operations. The retail stores include full-line and promotional department stores and stores located in smaller communities. The Company has interests in the real estate industry through Markborough Properties Limited and through joint ventures and income properties. The Company also has interests in natural resources through its subsidiary, Roxy Petroleum Ltd., and until March 25, 1983, through other investments.

Reported industry segments are merchandising, real estate and natural resources with merchandising further divided, where significant, into retail, wholesale and fur. Information pertaining to these segments is included in these consolidated financial statements and is supplemented by the following additional information.

Sales and revenue include the Company's equity in the pre-tax earnings of companies and joint ventures accounted for under the equity method, as follows:

	This Year \$ 000's	Last Year \$ 000's
Pre-tax equity earnings (loss):		
Merchandising – retail	(2,397)	9,774
Real estate	34,113	22,981
Natural resources	1,640	(1,346)
	33,356	31,409
Less income taxes thereon	(17,492)	(15,133)
Equity earnings	15,864	16,276

Other supplementary segmented information related to the Consolidated Statement of Earnings is as follows:

	This Year \$ 000's	Last Year \$ 000's
Dividends received in respect of investments carried at cost included in revenue and earnings from:		
Merchandising	2,900	–
Natural resources	6,339	45,958
	9,239	45,958
Depreciation and amortization:		
Deducted in arriving at operating profit:		
Merchandising	65,537	60,908
Real estate	4,728	5,066
Natural resources	299	273
	70,564	66,247
Included in natural resource earnings (see note 6(c)(ii))	(1,868)	(12,899)
Included in interest expense (amortization of debt discount and expense)	6,204	1,679
	74,900	55,027

Investments in joint ventures and other companies accounted for by the equity method which are included by segment in the Consolidated Statement of Assets Employed are as follows:

	This Year \$ 000's	Last Year \$ 000's
Merchandising	31,918	274,568
Real estate	101,667	77,561
Natural resources	169,010	159,805
	302,595	511,934

Merchandising assets employed predominantly relate to retail operations. The Company has operations outside Canada, including fur operations in the United Kingdom and in the United States and real estate operations in the United States. These operations generate less than 10% of the Company's revenue and employ less than 10% of its assets.

3. INCOME TAXES

The tax liabilities arising in a subsidiary company from the extraordinary gains on disposition of investments and fixed assets during the year were sufficient to enable that company to take a tax credit to earnings of \$25,915,000 in respect of current year operating losses and also a tax credit of \$28,097,000 as an extraordinary item (see note 4(b)) in respect of operating losses incurred last year.

Cumulative income tax losses at January 31, 1984 amounted to approximately \$268,000,000, of which \$82,000,000 may be carried forward until 1987, \$76,000,000 until 1990 and \$32,000,000 until 1991. The remainder of \$78,000,000 represents depreciation recorded in the financial statements but not yet claimed for income tax purposes.

The Company has only taken credit for the potential future income tax recovery from the carry forward of approximately \$89,000,000 of the total losses of \$268,000,000 available to reduce otherwise taxable income of future years.

4. EXTRAORDINARY ITEMS

Extraordinary items are as follows:

	This Year \$ 000's	Last Year \$ 000's
Gains on disposition of investments	92,701	–
Less income taxes thereon	(33,654)	–
	59,047	–
Tax recovery on prior year's losses	28,097	–
Loss on disposition of foreign operations	(4,338)	–
Costs and expenses relating to the closure of Shop-Rite operations	–	(5,420)
	82,806	(5,420)

a) Gains on disposition of investments

Of these gains, \$48,028,000 after income taxes of \$21,794,000 results from the sale for cash of shares in Simpsons-Sears Limited (see note 6(a)) and \$11,019,000 after income taxes of \$11,860,000 results from the redemption for cash of the interest in preferred shares of Dome Resources Limited (see note 6(c)(ii)).

b) Tax recovery on prior year's losses

The tax recovery on the prior year's losses is accounted for as an extraordinary item as credit for those losses had not been taken in the prior year.

c) Loss on disposition of foreign operations

On December 29, 1983 the Company's subsidiary, Roxy Petroleum Ltd., disposed of its shares in its U.S. subsidiary in exchange for cash. The loss to the Company arising out of this transaction, after deducting the amount attributable to minority shareholders, was \$4,338,000. This loss did not give rise to any recovery of income taxes.

d) Closure of Shop-Rite catalogue store operations

The Company closed Shop-Rite, its catalogue store division, on January 30, 1982. The Company subsequently determined that ongoing obligations and costs related to the termination of leases were proving to be appreciably in excess of amounts previously provided and a further sum of \$5,420,000 was charged as an extraordinary item for the year ended January 31, 1983. The Company did not recognize the potential future tax benefit arising from these additional costs and expenses.

5. SECURED RECEIVABLES

Secured receivables include mortgages which arise principally from land transactions and loans outstanding under the employee share purchase plan.

	This Year \$ 000's	Last Year \$ 000's
Total secured receivables	73,642	83,624
Less amounts due within one year classified as accounts receivable	(16,020)	(25,857)
	57,622	57,767

Average rate of interest

10.0% 9.8%

Maturities during the five years ending January 31, 1989 are as follows:

1985 - \$16,020,000; 1986 - \$15,795,000; 1987 - \$9,683,000;
1988 - \$13,007,000; 1989 - \$ 5,154,000.

Under certain conditions, the amounts due may be paid prior to maturity.

6. INVESTMENTS

Investments comprise the following:

	This Year \$ 000's	Last Year \$ 000's
Simpsons-Sears Limited	107,956	252,369
Real estate joint ventures	101,667	77,561
Dome Petroleum Limited	61,658	61,658
Dome Resources Limited	-	(420,132)
Natural resource joint ventures	169,010	159,805
Other	35,984	33,722
	476,275	1,005,247
Less investment in Dome Resources Limited included in current assets	-	(420,132)
	476,275	585,115

a) Simpsons-Sears Limited ("Sears")

The investment in Sears, which at the beginning of the current year consisted of 31,095,925 class B shares or 35.6% of all of the outstanding shares of Sears, was accounted for by the equity method.

On July 1, 1983, the Company's holding was reduced to 13,500,000 class B shares, representing 15.4% of all the outstanding shares of Sears, through the sale to Sears Roebuck and Co. of 17,595,925 shares for \$211,151,000, \$12.00 per share. As a result of this disposal, the Company commenced to account for this investment by the cost method at a carrying value of \$8.03 a share.

The Company's remaining holding of class B shares, which after conversions during the year amounts to 13,440,798, is held in escrow by The Royal Trust Company pursuant to the provision of the Company's \$2.25 cumulative redeemable exchangeable preferred shares series F, which were issued on February 10, 1983 (see note 9).

b) Real estate joint ventures

The investment in real estate joint ventures, consisting of shopping centre, commercial, industrial and residential interests, is carried at cost plus the Company's equity in undistributed earnings since acquisition. The Company's share of real estate joint ventures is summarized as follows:

	This Year \$ 000's	Last Year \$ 000's
Assets		
Accounts receivable	51,393	53,601
Property for sale and future development	95,423	94,130
Fixed assets, net	260,901	281,278
	407,717	429,009

	This Year \$ 000's	Last Year \$ 000's
Liabilities		
Bank indebtedness	6,107	43,984
Accounts payable and accrued expenses	29,142	70,071
Long-term debt	270,801	237,393
	306,050	351,448
Investment in real estate joint ventures	101,667	77,561
Revenue	115,376	88,990
Expenses		
Interest	24,182	26,868
Depreciation	4,144	3,276
Other	52,937	35,865
	81,263	66,009
Pre-tax earnings of real estate joint ventures	34,113	22,981

c) Dome Petroleum Limited ("Dome") and Dome Resources Limited ("Resources")

(i) Dome

The investment in Dome, carried at cost, consists of 4,110,517 series D preferred shares. These shares have an original stated retraction date of January 3, 1984. In order to permit Dome to negotiate its proposed rescheduling plan with its creditors including the Company, the Company has agreed not to present the shares for payment until March 30, 1984, subject to earlier presentation on the happening of certain events. In the meantime, Dome is required, in lieu of dividends otherwise accruing, to pay interest to the Company at a variable rate per annum equal to 2% plus the domestic prime rate of a Canadian chartered bank. The Company offsets the interest received against short-term interest expense. If Dome's rescheduling plan is ultimately implemented, the Company anticipates that the redemption date of the shares, or of indebtedness acquired in lieu of the shares, would be deferred for a number of years.

As a result of the exchange of shares described in (ii) below the Company acquired 10,315,116 Dome common share purchase warrants, each warrant entitling the holder to purchase one common share of Dome at an exercise price of \$23.1125 per share until December 31, 1984. At January 31, 1984 5,074,632 of these warrants were on hand and were carried at nominal value. The quoted market value of Dome common shares on the Toronto Stock Exchange on January 31, 1984 and January 31, 1983 was \$3.85 and \$4.40, respectively; the warrants were quoted at \$.03 and \$.175, respectively.

(ii) Resources

The investment in Resources consisted of 7,736,337 \$5.75 class A retractable preferred shares of Resources acquired in exchange for an equal number of common shares of Hudson's Bay Oil and Gas Company Limited. The Resources shares carried cumulative preferential annual cash dividends of \$5.75 per share payable quarterly and were scheduled to be retracted at \$57.50 per share on December 31, 1984. These shares were recorded on acquisition at their approximate fair value of \$52.50 per share with the difference of \$5.00 per share being amortized to income over the three year period to December 31, 1984. On March 25, 1983 these shares were redeemed by Resources at \$58.807534 each, being \$57.50 plus an amount equal to accrued dividends.

d) Natural resource joint ventures

The Company's share of natural resource joint venture activities is summarized as follows:

	This Year \$ 000's	Last Year \$ 000's
Oil and gas properties	157,533	163,709
Accounts receivable	15,634	20,600
Other assets	12,132	1,913
Accounts payable and accrued expenses	(16,289)	(26,417)
Investment in natural resource joint ventures	169,010	159,805
Revenue	18,928	17,584
Expenses		
Production and operating costs	3,640	3,940
Interest	2,340	3,172
Depletion and depreciation	7,199	8,205
Other	4,109	3,613
	17,288	18,930
Pre-tax earnings (loss) of natural resource joint ventures	1,640	(1,346)

e) Other

Other investments include interests in merchandising companies carried at cost plus the Company's equity in undistributed earnings since acquisition.

7. LONG-TERM DEBT

Long-term debt comprises the following:

	This Year \$ 000's	Last Year \$ 000's
Secured on property:		
Hudson's Bay Company Properties Limited		
5 3/4% first mortgage bonds series A due 1990	8,159	9,216
7 1/2% first mortgage bonds series B due 1991	5,933	6,433
11 1/2% first mortgage bonds series C due 1995	25,213	25,548
9 7/8% first mortgage bonds series D due 1997	37,671	37,875
10 % first mortgage bonds series E due 1998	28,316	30,051
Hudson's Bay Company Developments Limited		
Mortgages, 10.2% average (last year 10.2%), repayable by instalments to 2002	15,094	15,436
Markborough Properties Limited		
Mortgages and obligations on property for future development, 11.1% average (last year 10.7%), repayable by instalments to 1989	153,657	140,029
Mortgages on income properties, permanent financing, 11.1% average (last year 9.6%), repayable by instalments to 2005	56,894	30,201
Mortgages on income properties, interim financing, 11.0% average (last year 12.0%), payable and maturing in 1984	19,100	38,130
Micmac Shopping Centre Limited		
9 1/2% first mortgage bonds repayable by instalments to 1999	11,299	11,575
Roxy Petroleum Ltd.		
Term loan, 13.875%, due 1987	15,000	15,000
Other		
	384,046	364,443

	This Year \$ 000's	Last Year \$ 000's
Secured on accounts receivable:		
Hudson's Bay Company Acceptance Limited		
5 3/4% debentures series B due 1983		—
13 1/4% debentures series C due 1989 (a)	4,628	4,628
8 3/4% debentures series D due 1991	20,000	20,000
8 1/4% debentures series E due 1993	20,000	20,000
10 1/2% debentures series F due 1996	27,016	29,000
13 3/4% debentures series G due 2001	52,914	55,318
Simpsons Acceptance Company Limited		
5 3/4% debentures series D due 1984	10,000	10,000
6 3/4% debentures series E due 1986	10,000	10,000
8 3/8% debentures series F due 1992	10,000	10,000
8 3/8% debentures series G due 1992	15,000	15,000
9 1/8% debentures series H due 1997	19,770	21,226
	189,328	205,172
Secured by floating charge on assets of subsidiaries:		
Zellers Inc.		
7 % sinking fund debentures series C due 1986	2,393	2,688
10 1/4% sinking fund debentures series 1974 due 1994	8,672	10,426
	11,065	13,114
Unsecured:		
Hudson's Bay Company		
13 3/4% series D notes due 1986	50,000	50,000
Floating rate series F notes due 1986 and 1987 (b)	47,500	47,500
16 1/2% series G notes due 1986	1,000	1,000
18 % notes due 1987	60,000	60,000
13 3/4% term loans due 1985-1987 (U.S. \$60,000,000)	75,561	75,000
10 1/2% debentures due 1989	43,129	53,520
17 % notes due 1989	40,000	40,000
11 1/2% debentures due 1990 (U.S. \$75,000,000)	96,362	93,750
10 % debentures due 1994 (U.S. \$39,042,000 and U.S. \$44,205,000, respectively)	48,803	55,256
15.36% term loan due 1997 (£5,592,000)	9,786	10,624
13.10% term loan due 1988 (U.S. \$40,000,000)	50,000	—
Dual currency bonds due 1991-1993 (U.S. \$99,000,000) (c)	123,750	—
Bankers' acceptances (d)	194,000	288,000
Simpsons Limited		
5 3/4% debentures series D due 1984	26	26
5 3/4% debentures series E due 1985	588	1,152
6 1/2% debentures series F due 1987	2,497	2,766
9 1/2% debentures series G due 1989	5,322	6,051
8 3/8% debentures series H due 1993	8,800	11,495
9 1/8% debentures series I due 1994	5,916	6,832
11 3/4% debentures series J due 1995	13,364	14,864
	876,404	817,836
Subordinated:		
Zellers Inc.		
5 1/2% convertible subordinated debentures series 1971 due 1991 (e)	944	1,013
	1,461,787	1,401,578
Less amount due within one year	(48,898)	(76,485)
	1,412,889	1,325,093

- a) The holders of Hudson's Bay Company Acceptance Limited series C debentures have the right to be prepaid on March 2, 1985.
 - b) The floating rate series F notes bear interest at 3% above the average monthly deposit rates of two Canadian chartered banks.
 - c) The dual currency bonds bear annual interest at 8% on a notional principal amount of 165,000,000 Swiss Francs. The hedged Canadian interest cost of this borrowing at January 31, 1984 is 12.75% per annum.
 - d) Bankers' acceptances, which are due within one year, have been classified as long-term debt as they may be converted, at the Company's option, to long term borrowing facilities expiring at various dates from April 1, 1985 to April 1, 1989. The interest rate on \$50,000,000 of these Bankers' Acceptances has been fixed at 12.96% until April 1, 1989 by way of interest rate swap.
 - e) The holders of Zellers Inc. 5 1/2% convertible subordinated debentures series 1971 have the right until September 1991 to exchange such debentures for ordinary shares of Hudson's Bay Company at the rate of 32.43 ordinary shares per \$1,000 of debenture principal.

The majority of the long-term debt is subject to redemption at the option of the issuers at various times or under certain conditions. For the most part, redemption earlier than within three or four years of maturity of the securities would require the payment of redemption premiums.

Aggregate maturities and sinking fund requirements during the five years ending January 31, 1989 are as follows:

1985 - \$ 48,898,000; 1986 - \$84,618,000; 1987 - \$278,774,000;
1988 - \$228,335,000; 1989 - \$36,211,000.

8. PENSIONS

The amount shown in the Consolidated Balance Sheet at January 31, 1984 is adequate to provide for all unfunded pension liabilities. Funding payments are expected to extinguish substantially all of the unfunded liabilities by 1991.

9. CAPITAL STOCK

The authorized classes of shares of the Company consist of an unlimited number of ordinary shares without nominal or par value and an unlimited number of preferred shares without nominal or par value. Unlimited numbers of the preferred shares have been designated as "redeemable preferred shares series B", "\$1.512 convertible redeemable preferred shares series D" and "redeemable preferred shares series E", 11,750,000 shares have been designated as "\$1.80 cumulative redeemable preferred shares series A", 800,000 have been designated as "variable rate, cumulative redeemable preferred shares series C", 4,500,000 have been designated as "\$2.25 cumulative redeemable exchangeable preferred shares series F" and 4,500,000 have been designated as "\$2.25 cumulative redeemable preferred shares series G".

Shares issued and outstanding at January 31, 1984 and the changes during the two years then ended are as follows:

	Number of shares	\$ 000's
\$1.80 cumulative redeemable preferred shares series A (stated capital \$22.50 each):		
Issued and outstanding at January 31, 1982	5,544,789	124,758
Less purchased for cash and cancelled in the year ended January 31, 1983	(232,326)	(5,228)
Issued and outstanding at January 31, 1983	5,312,463	119,530
Less purchased for cash and cancelled in the year ended January 31, 1984	(236,129)	(5,313)
Issued and outstanding at January 31, 1984	5,076,334	114,217

Variable rate, cumulative redeemable preferred shares series C (stated capital \$25.00 each):

shares series C (stated capital \$25.00 each).
 Issued and outstanding at January 31, 1983
 and January 31, 1984 800 000 20 000

	Number of shares	\$ 000's
\$1.512 convertible redeemable preferred shares series D (stated capital \$18.00 each):		
Issued and outstanding at January 31, 1982	112,352	2,022
Less purchased for cash and cancelled in the year ended January 31, 1983	(211)	(4)
Less converted into ordinary shares in the year ended January 31, 1983	(5,487)	(98)
Issued and outstanding at January 31, 1983	106,654	1,920
Less purchased for cash and cancelled in the year ended January 31, 1984	(39,805)	(717)
Less converted into ordinary shares in the year ended January 31, 1984	(1,111)	(20)
Issued and outstanding at January 31, 1984	65,738	1,183
\$2.25 cumulative redeemable exchangeable preferred shares series F (stated capital \$25.00 each):		
Issued in the year ended January 31, 1984, net of issue expenses	4,500,000	108,475
Less exchanged for shares of Simpsons-Sears Limited in the year ended January 31, 1984	(19,734)	(493)
Issued and outstanding at January 31, 1984	4,480,266	107,982
Ordinary shares:		
Issued and outstanding at January 31, 1982	23,777,181	257,240
Issued in the year ended January 31, 1983:		
Under the employee share purchase plan	148,880	2,699
On conversion of series D shares	3,373	98
On conversion of Zellers Inc. 5 1/2% convertible subordinated debentures series 1971	2,202	68
Less purchased for cash and cancelled in the year ended January 31, 1983	(61,584)	(666)
Issued and outstanding at January 31, 1983	23,870,052	259,439
Issued in the year ended January 31, 1984:		
Under the employee share purchase plan	34,073	839
On conversion of series D shares	680	20
On conversion of Zellers Inc. 5 1/2% convertible subordinated debentures series 1971	2,236	69
Less purchased for cash and cancelled in the year ended January 31, 1984	(178,730)	(1,943)
Issued and outstanding at January 31, 1984	23,728,311	258,424

The series A shares may be redeemed at the Company's option at prices declining from \$23.50 at February 1, 1984 to \$22.50 after December 31, 1988.

The holders of the series C shares are entitled to receive dividends at the rate of 7.35% until September 15, 1984. On that date and thereafter at five-year intervals the rate will be 52% of the average of the five-year guaranteed investment certificate rate of certain trust companies plus 2%. The shares may be redeemed at the Company's option at their issue price at certain intervals after September 15, 1984.

Under certain circumstances, the series D shares are redeemable before January 31, 1986 at \$18.90. Thereafter, these shares may be redeemed at prices declining from \$18.90 at February 1, 1986 to \$18.00 after January 31, 1991. Each series D share is convertible into 0.6154 ordinary shares at the holder's option until January 31, 1986 and thereafter into 0.5625 ordinary shares until January 31, 1991.

Each of the series F shares entitles the holder to acquire three class B shares of Simpsons-Sears Limited, owned by the Company and held in escrow by the Royal Trust Company (see note 6(a)), until March 31, 1990 or until earlier redemption by the Company. The holder may exercise this right by either requiring the Company to redeem the series F share at \$25.00 and directing the proceeds to be used to pay for three class B shares of Simpsons-Sears Limited or making a cash payment of \$25.00 to purchase three class B shares and converting the series F share into one series G share of the Company. The Company may not otherwise redeem the series F shares prior to April 1, 1986. Thereafter, under certain circumstances, these shares may be redeemed at prices declining from \$26.00 at April 1, 1986 to \$25.00 after March 31, 1992.

No series G shares have been issued at January 31, 1984. If issued, the Company will have the right to redeem these shares after March 31, 1988 at prices declining from \$26.00 at April 1, 1988 to \$25.00 after March 31, 1992. After the expiration of the exchange privilege attached to the series F shares and before the redemption of all of such series F shares, a holder of series G shares will have the right to convert such shares on a share for share basis into series F shares.

The cost of shares redeemed or purchased for cash and cancelled in each of the two years ended January 31, 1984 has been allocated as follows:

	Cost		Allocated to	
	\$ 000's	Capital stock	Additional paid-in capital	Retained earnings
			\$ 000's	\$ 000's
In the year ended January 31, 1983:				
Series A shares	2,936	5,228	(2,292)	—
Series D shares	3	4	(1)	—
Ordinary shares	1,226	666	8	552
	4,165	5,898	(2,285)	552
In the year ended January 31, 1984:				
Series A shares	4,228	5,313	(1,084)	—
Series D shares	637	717	(80)	—
Ordinary shares	4,140	1,943	24	2,174
	9,005	7,973	(1,140)	2,174

10. ADDITIONAL PAID-IN CAPITAL

The amount at January 31, 1984 and the changes during the two years then ended are as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Amount at beginning of year	7,794	5,509
Excess of stated value over cost of shares purchased for cash and cancelled	1,140	2,285
Amount at end of year	8,934	7,794

11. CONTINGENCIES

The Company has contingent commitments, along with others, relating to its investments in certain shopping centre companies and joint ventures. In the event that the Company had to meet any of these contingencies it would have a claim on the assets of the applicable development.

12. LEASES

a) As lessee

The Company conducts a substantial part of its merchandising operations from leased premises. All leases involving the Company as lessee have been accounted for as operating leases.

Rental expenses charged to earnings amount to \$95,215,000 (last year \$86,349,000).

The future minimum rental payments required under leases having initial or remaining noncancelable lease terms in excess of one year are summarized as follows:

	\$ 000's
Year ending January 31, 1985	82,684
1986	79,945
1987	77,564
1988	73,599
1989	65,943
Thereafter	845,995
Total minimum lease payments	1,225,730

In addition to these rental payments (and, in a few cases, relatively minor contingent rentals), the leases generally provide for the payment by the Company of real estate taxes and other related expenses.

b) As lessor

The Company leases space to others in a number of regional shopping centres and commercial properties. All of these leases are classified as operating leases.

Fixed assets in the Consolidated Balance Sheet include real estate leased to others under operating leases amounting to \$198,800,000 (last year \$207,100,000), net of accumulated depreciation of \$17,500,000 (last year \$17,000,000).

Real estate revenues include rentals from the above properties of \$35,100,000 (last year \$37,400,000).

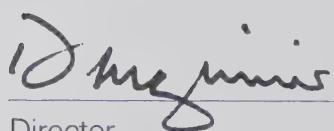
13. RELATED PARTY TRANSACTIONS

The Company is involved in numerous transactions with related parties in the ordinary course of its business. None of these transactions is significant in relation to these consolidated financial statements.

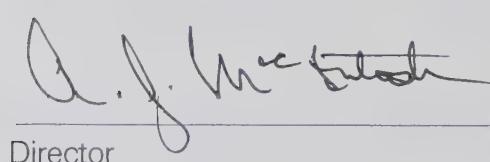
Approval of Consolidated Financial Statements

These consolidated financial statements including the notes thereto, contained on pages 25 to 35, have been reviewed by the Audit Committee of the Board of Directors, a majority of whom are outside directors, and have been approved by the Board on the recommendation of the Audit Committee.

On behalf of the Board:



Director



Director

Toronto, Canada
March 16, 1984



Auditors' Report to the Shareholders

We have examined the consolidated balance sheet and the consolidated statement of assets employed of Hudson's Bay Company as at January 31, 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Hudson's Bay Company as at January 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Toronto, Canada
March 16, 1984

Hudson's Bay Company
Ten Year Consolidated Financial Summary

	1983	1982
Results for the year (in thousands of dollars)		
Sales and revenue:		
Retail	3,618,145	3,427,378
Wholesale	522,857	485,153
Fur	39,763	38,311
Merchandising	4,180,765	3,950,842
Real estate	176,946	126,945
Natural resources	12,817	60,884
Total sales and revenue	4,370,528	4,138,671
Fur consignment sales	355,813	360,146
Source of earnings:		
Retail	53,861	7,696
Wholesale	10,102	10,016
Fur	(4,019)	4,342
Merchandising	59,944	22,054
Real estate	52,681	47,012
Natural resources	12,535	60,584
Operating profit	125,160	129,650
Interest expense	(173,696)	(261,307)
Earnings (loss) before income taxes and minority interest	(48,536)	(131,657)
Income taxes	30,142	8,677
Earnings (loss) before minority interest	(18,394)	(122,980)
Minority interest	488	800
Earnings (loss) before extraordinary items	(17,906)	(122,180)
Extraordinary items	82,806	(5,420)
Net earnings (loss)	64,900	(127,600)
Dividends paid:		
Preferred shares	19,918	11,437
Ordinary shares	14,234	17,815
Cancellation of ordinary shares	2,174	552
Increase (decrease) in retained earnings	28,574	(157,404)
Cash flow	(6,570)	(104,670)
Capital expenditures	94,666	120,335
Depreciation	62,702	59,827
Year end financial position (in thousands of dollars)		
Merchandising	2,056,987	2,119,307
Real estate	743,940	742,565
Natural resources	169,718	592,092
Assets employed	2,970,645	3,453,964
Debt	1,717,233	2,306,074
Deferred income taxes	(1,300)	30,559
Minority interest	75,046	68,296
Shareholders' equity	1,179,666	1,049,035
Results per ordinary share (in dollars)		
Earnings (loss) before extraordinary items	(1.63)	(5.63)
Net earnings (loss)	1.86	(5.86)
Dividends	.60	.75
Shareholders' equity	39.40	38.00
Shareholders and employees		
Number of ordinary shareholders	16,100	18,300
Ordinary shares outstanding (in thousands)	23,728	23,870
Range in share price (in dollars)	25³/₄–20¹/₂	23–15
Number of employees	44,000	45,000

Note: Where appropriate, figures have been restated for the purpose of comparability.

1981	1980	1979	1978	1977	1976	1975	1974
3,443,040	3,190,191	2,847,927	1,432,712	1,019,831	992,575	892,766	780,854
497,058	460,356	408,434	356,967	323,810	263,461	231,995	190,875
42,604	63,342	66,302	42,568	34,059	26,987	21,178	22,304
3,982,702	3,713,889	3,322,663	1,832,247	1,377,700	1,283,023	1,145,939	994,033
173,003	83,828	96,263	48,712	36,004	52,945	32,174	17,852
16,737	16,169	16,283	15,343	13,686	10,480	8,020	6,308
4,172,442	3,813,886	3,435,209	1,896,302	1,427,390	1,346,448	1,186,133	1,018,193
405,913	491,507	511,628	329,773	283,000	244,344	185,252	175,661
81,858	153,314	177,755	76,495	40,912	34,922	34,868	32,308
13,060	11,856	8,737	7,392	8,064	7,622	6,897	5,808
12,058	17,556	26,508	11,092	7,706	6,286	4,537	4,719
106,976	182,726	213,000	94,979	56,682	48,830	46,302	42,835
67,035	33,349	26,300	17,842	14,856	23,207	14,615	10,313
16,248	15,735	16,283	15,343	13,686	10,480	8,020	6,308
190,259	231,810	255,583	128,164	85,224	82,517	68,937	59,456
(244,307)	(136,533)	(113,741)	(47,868)	(37,351)	(33,443)	(26,669)	(24,493)
(54,048)	95,277	141,842	80,296	47,873	49,074	42,268	34,963
57,208	(30,541)	(52,073)	(29,757)	(16,095)	(21,184)	(18,548)	(15,514)
3,160	64,736	89,769	50,539	31,778	27,890	23,720	19,449
573	(10,186)	(9,423)	(5,894)	(1,897)	(3,080)	(1,716)	(1,029)
3,733	54,550	80,346	44,645	29,881	24,810	22,004	18,420
382,435	18,811	23,175	98,367	—	—	—	—
386,168	73,361	103,521	143,012	29,881	24,810	22,004	18,420
11,746	11,874	10,866	—	—	—	—	—
28,510	28,455	25,481	16,111	9,181	8,391	8,362	8,286
6,603	—	—	—	—	—	—	—
339,309	33,032	67,174	126,901	20,700	16,419	13,642	10,134
51,044	102,000	127,260	75,312	48,209	47,645	42,760	34,010
147,600	172,329	124,977	58,915	43,075	38,163	29,586	41,715
51,414	43,909	38,886	21,301	16,473	14,598	13,157	11,485
2,132,011	1,881,474	1,747,420	1,522,050	601,610	525,960	462,433	465,269
689,182	562,921	408,884	313,750	246,843	231,782	180,811	168,516
640,594	166,438	133,561	134,084	29,595	23,881	20,142	17,763
3,461,787	2,610,833	2,289,865	1,969,884	878,048	781,623	663,386	651,548
2,133,906	1,639,498	1,343,484	1,124,318	535,470	463,473	375,184	387,187
51,326	56,566	64,118	54,937	45,306	43,706	33,887	25,793
69,270	53,557	49,598	58,505	21,308	20,022	17,973	16,618
1,207,285	861,212	832,665	732,124	275,964	254,422	236,342	221,950
(.34)	1.80	2.98	2.74	2.12	1.77	1.58	1.33
15.78	2.59	3.98	8.79	2.12	1.77	1.58	1.33
1.20	1.20	1.10	.91	.65	.60	.60	.60
44.58	30.01	28.59	25.80	19.50	18.05	16.90	15.93
19,300	20,800	22,500	30,600	20,900	21,900	22,800	24,000
23,777	23,712	23,712	23,092	14,155	14,096	13,985	13,936
30 $\frac{5}{8}$ -20 $\frac{1}{4}$	31 $\frac{3}{4}$ -23	35-21 $\frac{1}{4}$	24 $\frac{1}{2}$ -17 $\frac{1}{8}$	19 $\frac{1}{8}$ -14 $\frac{1}{8}$	20 $\frac{7}{8}$ -13 $\frac{1}{2}$	18 $\frac{5}{8}$ -14 $\frac{1}{4}$	20-9 $\frac{3}{4}$
48,000	47,000	46,000	45,000	20,000	20,000	20,000	20,000

The Company – A Brief Description

THE COMPANY TODAY

Merchandising

Approximately 570 stores in three retail groups. The Bay, Simpsons and Zellers, serve the diversified needs of Canadians from Newfoundland to the Yukon and from the Arctic Islands to the United States border. The Bay is strongly represented in eleven of Canada's important cities and is the leading retailer throughout the Canadian North. Simpsons Limited operates full-line department stores in eastern Canada. Zellers Inc. operates promotional department stores across Canada and Fields family clothing stores in the western provinces.

Hudson's Bay Wholesale distributes giftwares, confectionery and tobacco products through a network of branches located from coast to coast. The Company's famous blankets and spirits are sold throughout Canada.

The Company maintains its traditional interest in fur, with auction houses in New York, London and Toronto.

In addition, the Company distributes hardware through Marshall Wells Limited, provides travel services through HBC Travel Limited, and has an important investment in Eaton Bay Financial Services Limited.

Natural Resources

The Company has a 52.6% interest in Roxy Petroleum Ltd., an intermediate-sized oil company engaged in exploration and production, principally in Canada.

Real Estate

Markborough Properties Limited, a wholly-owned subsidiary, is one of Canada's largest real estate development companies. It owns shopping centres and commercial buildings as well as substantial holdings of land for residential, commercial and industrial development. These real estate holdings are principally in Canada and the southern United States.

HISTORY

Incorporation

King Charles II granted on May 2, 1670 to 18 Adventurers, a Charter incorporating them as The Governor and Company of Adventurers of England trading into Hudson's Bay. This followed the successful voyage of the ketch "Nonsuch", with des Groseilliers aboard, to Hudson Bay to trade for furs.

In 1970, three hundred years after its incorporation, the Company was continued as a Canadian corporation and the headquarters were transferred from the United Kingdom to Canada.

Competition

During the first century of the Company's existence the men on the Bay established forts and traded with the Indians.

As competition from the Montreal-based North West Company increased in the 1770's, the Company moved into the interior and gradually built a network of routes and forts spread out over the North and West. The two rival companies amalgamated under the Hudson's Bay Company name in 1821.

Deed of Surrender

In 1870, by Deed of Surrender, the Company's chartered territory was formally transferred to the Government of Canada in return for farm lands in the prairie provinces which were sold to settlers during the next 85 years.

Following the Deed of Surrender the Company turned its attention to the retail trade, which is now its most important activity.

Twentieth Century

The Company built downtown department stores in each of the major cities of western Canada (1913-1968). It co-founded Hudson's Bay Oil and Gas Company Limited (1926). It acquired Henry Morgan & Co. Limited (1960), A.J. Freiman Limited (1971) and 35% of Siebens Oil & Gas Ltd. (1973). It acquired control of Markborough Properties Limited (1973), Simpsons Limited (1978) and Zellers Inc. (1978), and disposed of its Siebens investment (1979). It acquired control of Roxy Petroleum (1980) and disposed of its HBOG investment (1982).

Hudson's Bay Company has been part of the fabric of Canadian society for over three centuries.



